A CASE STUDY OF THE

FUNDACIÓN COSTA RICA-CANADÁ

CAPITALIZING ON THE STRENGTH OF COMMUNITY ORGANIZATIONS

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Fundación Costa Rica-Canadá

Capitalizing on the Strength of Community Organizations

During the eighteen years since its inception the Fundación Costa Rica-Canadá (referred to hereafter as the Foundation) has assisted in providing housing solutions to more than 30 thousand families in Costa Rica. While the housing sector in Costa Rica has a host of organizations contributing to improved housing conditions at all economic levels, the Foundation is the only member of the National Housing Finance System that makes use of a network of local organizations as the principal means to deliver its programs. The Foundation plays a critical intermediary role between the public sector Housing Bank (BANHVI) and local grassroots organizations that could not otherwise access BANHVI's resources. As such, the Foundation offers a model for achieving broad geographical coverage through strategic alliances with local community-based organizations.

Foundations are typically created by establishing an endowment which the foundation invests, seeking a profitable return. The proceeds from these investments may then be channeled into a legitimate charitable cause through grants to third party entities. The Costa Rica-Canadá Foundation is interesting in that its endowment is primarily invested in social housing, and that it is the investment of the endowment itself that contributes toward the fulfillment of the Foundation's mission. This is made possible by providing credit through secured mortgage loans in fulfillment of the Foundation's mission to provide housing solutions while at the same time producing a return on investment that enables the Foundation to sustain itself for future activities.

This Study focuses on the housing finance programs developed and implemented by the Foundation with particular attention to the Foundation's methodology of program delivery through intermediary local organizations. An overview of the national housing finance system provides the context under which much of the Foundation's activities are carried out. Based on the experience of the Foundation, this case study seeks to identify conditions for establishing and maintaining successful partnerships with local organizations and examines the sustainability of the Foundation's housing finance programs.

Background on the Costa Rican Housing Finance System

The National Housing Finance System

In November 1986, the Costa Rican government approved the National Housing Finance System Law (*Ley del Sistema Financiero para la Vivienda: No 7052*). This law created the National Housing Finance System, the Housing Mortgage Bank (*Banco Hipotecario de la Vivienda* or BANHVI), the National Housing Fund (FONAVI), the Housing Subsidy Fund (FOSUVI) and defined what types of entities would be eligible to participate in the National Housing System as well as establishing the legal framework for a secondary mortgage market through the sale of securities.[1]

The National Housing Finance System (System) is composed of BANHVI and the authorized entities. At present there are twelve authorized entities in the System: three "mutuals" (similar to credit unions), four cooperatives, three banks, the governmental National Institute for Housing and Urbanization (INVU) and one foundation - the Fundación Costa Rica - Canadá.[2]

BANHVI's was established as an autonomous non-state public entity to preside over the Housing Finance System. However, all seven members of its Board of Directors are appointed by the Government Council and the Bank has a strong identity and relationship with the Ministry of Housing and Human Settlements. As the rector of the Housing Finance System, BANHVI's primary task is to promote and finance the authorized entities, and to obtain and distribute resources for solutions to the nation's housing problems. Article 10 of the law prohibits BANVHI itself from directly participating in the finance, purchase, sale or construction of housing.

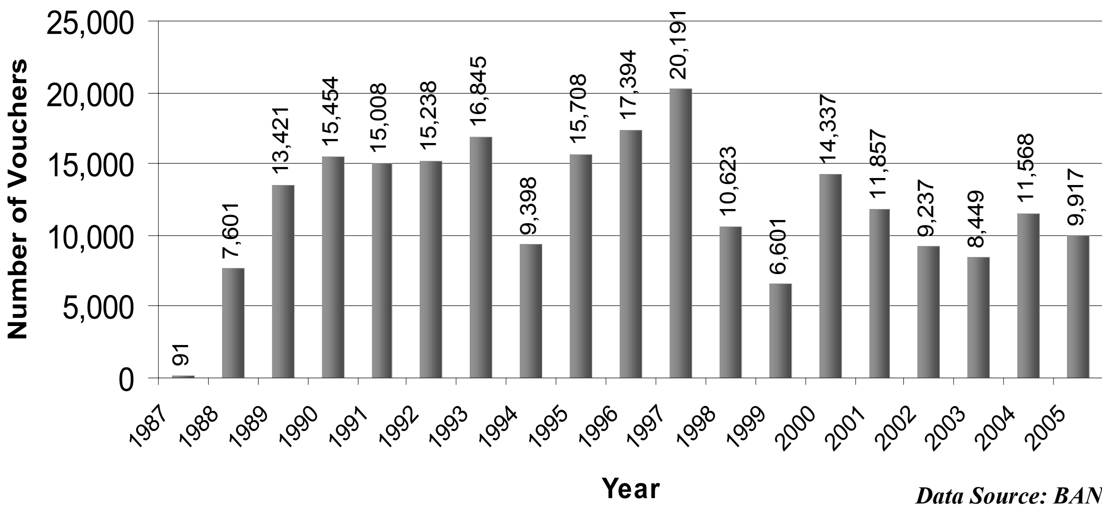
HOUSING SUBSIDY FUND

One of the principal functions of BANHVI is to disperse housing subsidies to lower income families through the *Bono Familiar de Vivienda* (referred to hereafter as the Family Housing Voucher or voucher). These vouchers are funded by the Housing Subsidy Fund. The National Housing Finance System Law established that the Housing Subsidy Fund would receive 33 percent of the total annual income of the Social Development and Family Allowance Fund (derived from 100 percent of all payroll taxes and 20 percent of all sales taxes) as well as three percent of the national . (In actuality the Housing Subsidy Fund has rarely received this allotment of the national budget).[3]

Families can only apply for the voucher through the authorized entities of the National Housing Finance System. Authorized entities receive a one percent administration fee for the successful postulation of voucher candidates. Families are allowed to receive this housing voucher one time only, which is given in the form of a direct donation to the family (Articles 50 and 52). The housing voucher may be used by the family for the purchase of land together with construction, for the construction of a house on land owned by the family, for purchase of an existing house, and lastly for additions, repairs and improvements to existing homes.

During the eighteen years since its inception in 1987 (through 2005) the Housing Subsidy Fund has provided 228,609 housing solutions through the voucher program averaging 12,700 solutions per year[4]. This is a substantial contribution to the Housing sector, accounting for 20.5 percent of all housing units in the country as of 2005[5]. In terms of housing production, in the five-year period between 2000 and 2004, voucher-assisted housing accounted for 45 percent, or nearly half, of all newly constructed housing units.[6] However, as figure 1 illustrates, production has not been consistent from year to year. The notable drop in housing production through the voucher system in 1998 and 1999 is largely attributed to the failure of several cooperatives that had participated in the National Housing Finance System as authorized entities.[7]

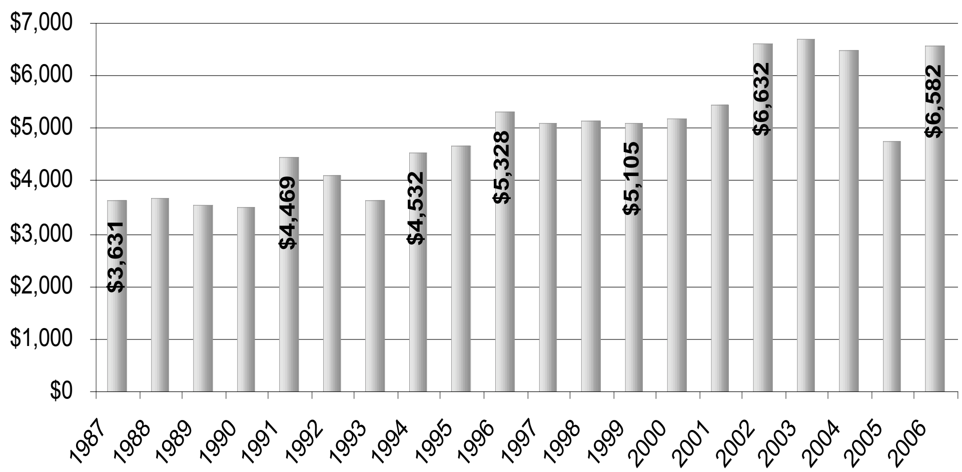
Figure 1 **Housing Vouchers**



Data Source: BANHVI

The amount of the subsidy has risen substantially over the life of the voucher program. In 1987 the average subsidy was $US3,631 (2006 US Dollars) and has risen through the years to its current subsidy level of $US6,582. This increase in the amount of the voucher has benefited authorized entities, increasing their administrative fees, which are fixed at one percent of the subsidy to cover costs associated with postulating beneficiary families and administering the program.

Figure 2 Inflation Adjusted Average Voucher Value in Real 2006 Dollars



Data Source: Derived from BANHVI, annual voucher amounts and Banco Central de Costa Rica. Consumer Price Index and exchange rates

While BANHVI cannot directly award vouchers, it reviews all applications for final approval of vouchers submitted by the authorized entities. This increases the transparency of the transaction between the final recipient and the granting institution. As an additional safeguard, the Law also separates the functions of housing finance and construction, prohibiting the authorized entities from engaging in the construction of housing projects or the construction of individual houses (Article 67).

The basic requirements for Family Housing Vouchers are established by the National Housing Finance System Law, which also authorizes BANHVI to establish regulations for the implementation of the Housing Subsidy Fund. The law establishes that the maximum subsidy, or the maximum voucher amount, shall not be greater than thirty times the monthly minimum wage for an unskilled construction worker (Article 50). As of September 2006 the maximum subsidy amount was ¢3,575,000 or $US6,890 equivalent to 29.1 times the monthly minimum wage.[8]

To qualify for the subsidy families must have an income of less than four times the minimum monthly wage for an unskilled construction worker, currently ¢490,776 Colones (or $US946). However, only families with an income of less than the minimum monthly wage, currently ¢122,694 Colones or $US217.20, are eligible to receive a complete subsidy. Families with incomes greater than the minimum monthly wage for an unskilled construction worker but less than four times that wage are eligible to receive a subsidy in decreasing proportion to their income. These families receiving less than the maximum voucher amount are eligible to receive loans in conjunction with the subsidy from the authorized entities.

Among all of the authorized entities in the National Housing Finance System, the Foundation has processed the greatest share of housing vouchers, accounting for 21 percent on all vouchers issued in 2005.[9]

ARTICLE 59: EXCEPTION TO THE RULE

Originally, this article of the Law was intended to address the needs of households headed by a disabled person. The article was later expanded to include special assistance to elderly persons, slum eradication projects, emergency responses (such as natural disasters) or cases of extreme need. Under this article a higher subsidy equivalent to one and a half times the amount of the established maximum voucher is allowed and the incomes of the households may be up to one and a half times the established minimum wage for the voucher program.

While the law prohibits authorized entities from construction activities, under Article 59 it allows them to acquire and subdivide land and to provide urban infrastructure. The Law also allows BANHVI to allocate resources from the Housing Subsidy Fund directly for the construction of projects. Under Article 59 many large urbanization projects were developed by large construction/development companies, leading to significant controversy in the past.

Until recently the maximum amount that could be directed towards the activities related to Article 59 was capped at 20 percent of the Housing Subsidy Fund. However, in July 2006 this article was again revised to increase the amount that could be spent on the activities defined by the article to up to 40 percent of the annual income of the Housing Subsidy Fund. Additionally, in recognition of the complexity involved in the administration of these activities, the amount that authorized entities can receive for their administration costs was increased to 5 percent of project costs.[10]

It has been commented that this increase in funding to Article 59 projects will negatively impact the total availability of funds for conventional vouchers, reducing the overall production of social housing.[11]

THE FUNDACIÓN COSTA RICA-CANADÁ.

ORIGINS OF THE FOUNDATION: COSTA RICA – CANADIAN RURAL HOUSING PROGRAM

Prior to the establishment of the Foundation, the Canadian International Development Agency (CIDA) had been working closely with the Costa Rican government on rural housing projects and had set up the bilateral Costa Rica – Canadian Rural Housing Program that was jointly administered by CIDA, the Ministry of National Planning and Economic Policy (MIDEPLAN), and the Housing Secretary (predecessor to the current Ministry of Housing and Human Settlements-MIVAH). The source of revenue for the bilateral fund resulted from imports of agricultural inputs from Canada. Thus, the focus on the rural area was intended to tie the funds back to the agricultural sector as a nexus between the source and ultimate use of the funds.[12]

A principal objective in creating the foundation was to enable the transfer of funds from the bilateral fund to a non-state entity. The Foundation was established in 1988, fifteen months after the approval of the National Housing Finance System Law and the year after BANHVI initiated their housing voucher program. Ultimately the Costa Rica – Canadian Rural Housing Program transformed into the Foundation, the bilateral fund became the Foundation's endowment and the Foundation assumed all the projects that had been previously financed through the Program.

Costa Rican law establishes that foundations may not receive any public funds until at least one year has passed since its constitution and that the foundation has been active in the period since its constitution.[13] Therefore it was not until May 1989 that the Foundation became an authorized entity of the National Housing Finance System.[14] As an authorized entity the Foundation obtained access to the housing voucher program and in turn enabled access to this resource for families in rural communities through existing organizations.

The objective of the Foundation as stated in their founding document is to

> "*…Support the development of the rural areas of the country by establishing financing programs and projects for the construction of housing, complementary physical and social infrastructure as a means of strengthening the permanence of families in rural areas. As well as promoting and executing programs and projects aiding in the economic and social development of families in need in the rural areas of the country.*"[15]

It is interesting to note the focus on 'the permanence of families in rural areas.' Indeed in the 1980s much of Latin America had been experiencing a strong trend in rural to urban migration. For a time, development strategies were focused on stemming this tide, which in more recent years has been accepted as the inevitable result of industrialization and increased opportunities in urban centers.[16]

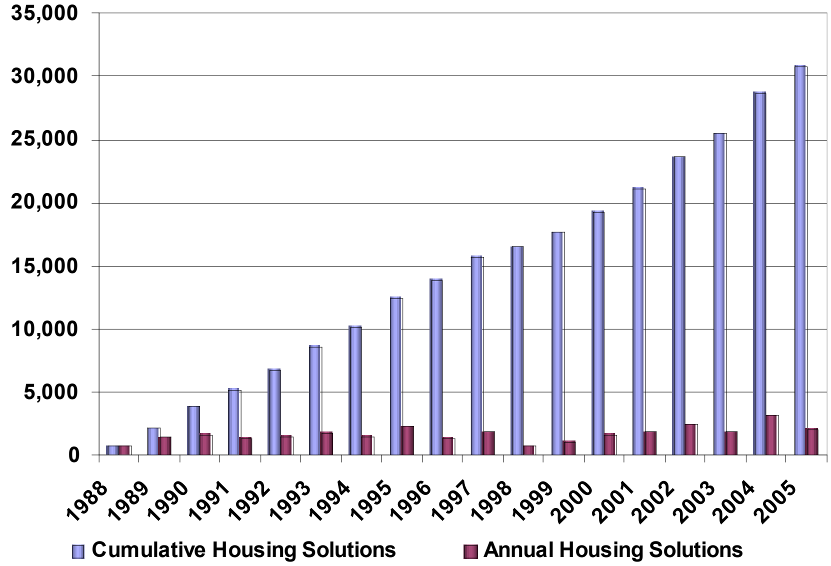
At present the Foundation is reevaluating its mission statement in light of the fact that it is currently working in both rural and urban settings as well as venturing into economic development lending, which is supported by their founding objective. The current mission statement based on the founding objective of the Foundation is:

> *To improve the quality of life of the inhabitants of the rural area, through the provision of housing solutions that contribute to their stability in their*

communities, using social organizations committed to the development of their communities as the platform for achieving this mission[17].

This mission brings to the forefront the Foundation's operational methodology of delivering their programs through existing local organizations. The success of the Foundation can be seen in substantial and consistent contribution to the housing sector in Costa Rica providing over 30,000 housing solutions over its 18 years of existence, primarily in the rural areas of the country.

Figure 3: Cumulative and Annual Housing Production



Data Source: Fundación Costa Rica-Canadá

IDENTITY CRISIS: GOVERNMENTAL OR NONGOVERNMENTAL

While the Foundation was established and continues to exist as a private Costa Rican non-governmental organization, the composition of the board has tied it directly into the public sphere with four of the five members being direct appointees from Costa Rican governmental entities and the remaining member being an appointee of the Canadian Embassy. This has created an enduring and direct relationship between the Foundation and MIVAH, MIDEPLAN and the Presidency of the Republic, with each granted the right to appoint their representative to the board of directors of the Foundation.

The composition of the Foundation board continued the governing structure of its predecessor - the Costa Rica – Canadian Rural Housing Program - which had a board consisting of three members: the Minister of Housing and Human Settlements, the Minister of National Planning and Economic Policy and the Canadian Ambassador to Costa Rica. These were augmented by two positions in fulfillment of the requirements of law enabling the creation of foundations in Costa Rica. This mandates that the Executive Branch of government shall appoint one member and that another member shall be appointed by the municipality of the registered domicile of the Foundation, which in the case of the Foundation is the municipality of Tibás.[18]

The institutionalized connection between the Foundation and the government could be viewed as a benefit to the Foundation, allowing it access to the ministries most relevant to its operations. However it has also allowed the Foundation to be directed closely by the government to achieve the ends desired by the government which have not always been in the best interest of the Foundation. In the past there has been a perception that the Foundation is merely an extension of the government, allowing the government to cross over the segregated functions established by the National Housing Finance Law.[19]

Recently the Foundation was successful in adopting a permanent change to the composition of its Board of Directors. With the consent of MIDEPLAN their right to appoint a representative was rescinded, and in their place a permanent representation from the local partner organizations was established. This local organization representative is democratically elected by an assembly of the local organizations with whom the Foundation maintains partnerships. This change balances the composition of the Board by lessening the State presence and providing a ground level viewpoint to decision making, making it less vulnerable to political upheaval.[20] Thus, the current composition of the Board is as follows:

Level of representation	Designation	Entitlement
National Government	Appointment	MINVAH
National Government*	Appointment	Presidency of the Republic
Local Government*	Appointment	Municipality of Tibás
International	Appointment	Canadian Embassy
Local NGO	Elected	Assembly of local NGOs

*mandated by law

Perhaps the most damaging effect of the governmental influence on the Foundation has been the instability of leadership of the foundation in response to political pressures. During the first five years of the Foundation's existence the leadership was fairly consistent. The initial general manager was succeeded after one year by Juan Jose Umaña, the Director of Operations, who had been a part of the bilateral program that predated the formation of the Foundation. However in the period from 1995 to November 2002 the Foundation had six general managers (the Foundation's CEO). This high turnover in the Foundation's top executive position was in large part due to political handling of the Foundation board through governmental appointees. For a period of time the Minister of Housing and Human Settlements himself held a position on the Board. During part of this phase of instable leadership, members of the board established their physical presence by maintaining offices in the Foundation's headquarters and taking a very "hands-on" approach to their oversight of the Foundation.[21]

The current board has a more distanced approach to their responsibility for and oversight of the Foundation, which is best summarized by the Board President Mario Rodriguez Vargas, "The Board needs to have their eyes and ears on the Foundation, but not their hands."[22]

RETURN TO FOUNDING PRINCIPLES

In the early 2000s the Foundation became more focused on developer-built housing projects under Article 59 and became less concerned about the partnerships with local organizations that had been the distinguishing hallmark of the Foundation.[23] The Foundation's strategic plan for 2003-2006 recognized this tendency and sought to return the Foundation to its roots, reaffirming their primary focus on the rural sector and recognizing the importance and need for the participation of local organizations as the primary platform for achieving the Foundation's mission.[24]

In 2003 Juan Jose Umaña Vargas was recruited back to the Foundation as general manager, eager to continue the work that he had started. Upon his return he was shocked to find that almost none of the employees knew what the Foundation did. To correct this disconnect, field trips were organized for all employees over a period of several months so that they could understand the meaning of their work and make the connection between their day-to-day tasks and the impact the Foundation was having in communities.[25]

In the last three years the Foundation has undergone significant changes as it has struggled to find its way back to its mission, striving to become more efficient in its operations while improving attention to its clients and partner organizations. Internally the Foundation made intense efforts to refocus staff on the mission of the Foundation and fomenting its defining values of solidarity, passion, creativity, integrity, trust and productivity among staff at all levels, while externally making efforts to reaffirm the importance of its relationships with local organizations that had been marginalized under previous management.[26]

CHANGE IN CULTURE: BENEFICIARY TO CLIENT

In refocusing the Foundation's staff on the mission and values of the organization, the Foundation made a conscious shift from using the term 'beneficiary' to 'client.' The term 'beneficiary' implied a lower social standing of needy people who were fortunate to have the Foundation's assistance bestowed upon them; whereas the term 'client' set the tone for a more businesslike and professional relationship establishing a basis for mutual respect. This change in focus turns the tables, whereas the 'beneficiary' is the passive recipient of the Foundation's benevolence, the 'client' provides the Foundation with its means of subsistence. This challenges the Foundation to provide the highest level of service, recognizing that the client has a choice of with whom they do business.[27]

HOUSING FINANCE PROGRAMS

The Foundation maintains four basic financing programs that are flexibly applied to five general types of housing solutions. The appropriate financing program for an individual family is determined by their income level and their eligibility to receive a complete or partial subsidy.

		Housing Solutions				
		Purchase of Land	Purchase of Land & Construction	Construction Only	Purchase Existing House	Home Improvements
Financing Method	Voucher		●	●	●	●
	Voucher/ Credit		●	●	●	●
	Savings/ Voucher/ Credit		●	●	●	
	Credit	●	●	●	●	●

FAMILY HOUSING VOUCHERS

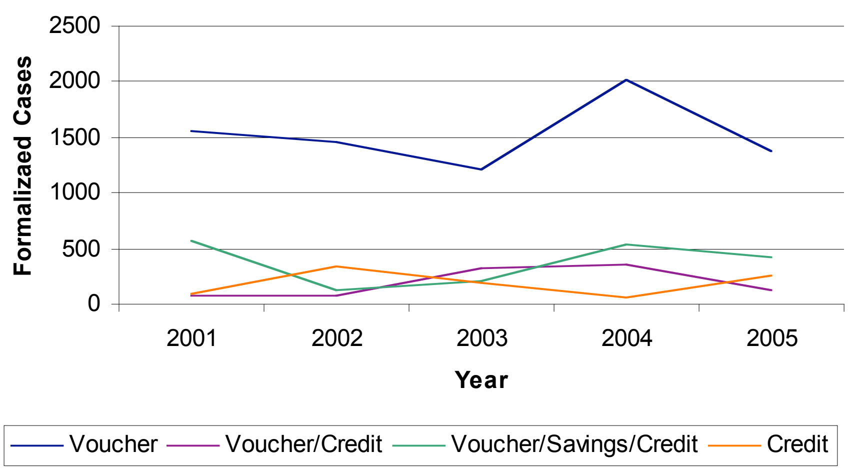
The requirements for eligibility for the Family Housing Voucher program including the Voucher/Credit and Voucher/Savings/Credit programs are established by BANHVI in accordance with the National Housing Finance Law. Neither the Foundation nor local organizations impose additional requirements, although the geographic area of attention may limit local organizations' ability to attend to specific cases.

The basic requirements for eligibility for all voucher programs are that applicants constitute a family, do not own a house (unless the voucher is for home improvements) or an additional property, and have an income less than ¢490,776 Colones (or $US946).[28] Persons who have previously received a voucher are not eligible. To apply for the voucher families must present documents establishing proof that they meet the program requirements as well as providing:

- Parcel survey map reviewed by municipal government;
- Title report from the National Registry;
- Letter from municipal government verifying payment of municipal and property tax;
- Purchase-Sale option with a 120-day term (if purchasing property with proceeds);
- Construction budget in format established by BANHVI (if building with proceeds);
- Building plans and specifications signed by an engineer (if building with proceeds).[29]

The voucher program could be said to be the cornerstone of the Foundation's housing activities. In the five-year period between 2001 and 2005, voucher-related activities accounted for 92 percent of the Foundation's housing production. The ability of the Foundation to postulate vouchers on behalf of its clients has enabled the Foundation to reach the lowest economic sectors of the population in fulfillment of the Foundation's mission while at the same time providing a significant means of ensuring the investment of the Foundation's funds in long-term secured loans, accounting for three quarters of the total number of credit operations between 2001 and 2005 and 52 percent of the portfolio's monetary value.

Figure 4 **Annual Housing Production by Financing Product 2001-2005**



Data Source: Fundación Costa Rica-Canadá

Only families with an income less than the minimum wage are eligible to receive a complete voucher subsidy. For cases falling under Article 59, eligible families may have an income of up to one and one half of the minimum wage and are entitled to receive a subsidy of up to one and a half times the established voucher amount. Based solely on these income criteria 41.5 percent of all Costa Rican households are eligible for voucher assistance. An additional 35.9 percent of households with incomes below four times the minimum wage are eligible to receive a reduced voucher subsidy in combination with a loan.[30]

Because the Foundation is not exposed to risk with voucher-only cases they are able to accept a legal right of possession (*derecho posesorio*) as proof of ownership in place of the public title document (*escritura publica*), thereby allowing families who own lots in informally subdivided urbanizations to access resources for the construction of houses.[31] However, for all credit operations clear legal title is required.

VOUCHER/CREDIT AND SAVINGS/VOUCHER/CREDIT

Families with income in excess of the minimum wage but less than four times the minimum wage can apply for one of these hybrid programs that provide credit in addition to the subsidy. Families in this economic range qualify for a reduced Family Housing Voucher the value of which decreases as income increases. With access to credit families have more flexibility in choosing the type of house to be built (or purchased).

The Savings/Voucher/Credit program combines a savings schedule of 6, 9, 12, or 18 months prior to the issuance of credit. The savings are then applied to the closing costs for the loan. Under both of these hybrid programs the total value of the lot and construction cannot exceed the limit for social housing established by BANHVI, which is currently ¢19,910,000 Colones or $US38,374.

CREDIT

For persons who do not qualify for the voucher or who prefer to avoid the restrictions imposed on the property by the voucher, the Foundation offers a credit-only option for financing. While the banking system in Costa Rica offers competitive mortgage products, the Foundation has a little more flexibility in its underwriting of loans in part because it is not subject to the same level of state oversight. Because these "pure credit" activities are not subject to the established guidelines for vouchers the Foundation may also impose additional requirements, in order to reduce their risk. The Foundation offers a higher loan to value ratio than commercial loan products making the cost of entry much more favorable and does not require a credit report. Additionally some private banks have high minimum loan requirements and are generally targeted towards a higher income level than the Foundation's client base.

Loan Terms At a Glance

Term:	15 years
Interest:	19.5 % Adjustable Rate
Loan to Value:	95% with Voucher 90% credit only
Debt to Income:	30%
Security:	1st or 2nd place lien hold
Insurance:	Fire and Earthquake
Maximum:	$36,455* with voucher $56,036* credit only

*Exchange rate as of Sept. 15, 2006

In all programs with credit components the Foundation accepts alternative documentation of income for persons who are self-employed, opening up the possibility of credit to those in the informal sector; however in these cases certification of income is required from a public or private accountant accompanied by sufficient supporting documentation.

While the Foundation maintains a rather high credit limit, up to $US56,036 for credit only operations and up to $US36,455 for credits with subsidies, the average loan amount in 2005 was $US3,998.

Nearly all of the loans issued by the Foundation are for a term of 15 years paid in 180 monthly installments. For all credit products the Foundation requires a minimum 30 percent debt payment to income ratio which increases to 35 or 40 percent, depending on family income. The interest rate for the loans is a variable rate and is currently at 19.5 percent[32] while the inflation rate in Costa Rica has been around 13 percent for the last two years. All loans are guarantied by a first or second place lien hold on the property. The property must also maintain fire and earthquake insurance, the cost of which is included as part of the monthly mortgage payment.

OPERATIONS: HOW HOUSING GETS BUILT

As part of the review and approval process every site is inspected by one of the Foundation's staff engineers to ensure the suitability of the site for construction taking into account possible hazards such as landslides and water runoff to ensure the safety and well being of the client as well as to protect the investment of the Foundation.[33]

Clients may choose from a variety of pre-existing plans that can be tailored to their construction site by a qualified architect or engineer, or clients may supply their own construction plans. In all cases construction plans endorsed by a licensed engineer are required for all financed or subsidized building activities.

It is the responsibility of the client to contract an engineer, obtain building permits, to secure a contractor and to procure building materials for construction. Local organizations often provide assistance to clients in this respect maintaining lists of contractors who have participated in the program in the past; however the ultimate decision lies with the client[34].

Disbursements for construction expenses are made every two weeks based on the actual physical advance in construction as verified by the Foundation's contracted supervising engineer. The funds for construction, originating from voucher and/or credit, are disbursed directly to the clients during the construction, who purchase the building materials and pay the contractor. This gives the clients control over the construction process and related budget, since all funds pass through their hands, leaving little room to doubt how the money has been used. The client's control over the disbursement of funds establishes the client's authority in relation to the contractor, while local organizations maintain vigilance over the use of the funds ensuring that the funds are used for their authorized purpose. In some cases, at the client's discretion, local organizations are authorized to receive and manage disbursements.

A contractor in Puriscal, Juan Carlos Fernandez, commented that he had to respond to four levels of supervision "first the client, then the engineer, then the cooperative and finally the Foundation's supervising engineer." This oversight has enabled the Foundation to maintain a high standard for the quality of construction. The engineer contracted by the client ensures that the contractor builds according to the specifications and is liable for construction defects for five years after the completion of the house. This provides both the client and the Foundation assurance in the quality of construction.

LOCAL COLLABORATION

According to the Foundation's General Manager, Juan Jose Umaña Vargas, "the work of local organizations has been without a doubt the principal factor in the success of the Foundation."[35] From its inception the Foundation's operating model relied heavily on local organizations as a means of developing projects. As the Costa Rica – Canada Rural Housing Program, the Program reviewed and approved projects put forth by local organizations throughout the country. The Foundation continued working under this same model continuing to rely on alliances with local organizations for the production of housing.

Costa Rica has the strength of a long history of community organizations including Cooperatives, Local Community Development Associations, County Unions (*Unions Cantonales*) and County Agricultural Centers (*Centro Agrícola Cantonal*) among others. Cooperatives have existed in Costa Rica since the 1920s;[36] more than 900 cooperatives are registered with the National Registry. In 1967 Costa Rica established the National Direction for Community Development (*Dirección Nacional de Desarrollo de la Comunidad* – DINADECO) under which thousands of Community Development Associations formed, these associations focused their efforts on identifying community needs and addressing them.[37] Many of these local organizations logically became interested in housing as a principal need in their communities. The Foundation became a natural mechanism for bridging the gap between these smaller organizations and the National Housing Finance System, providing a means of access and distribution of the Family Housing Voucher to rural communities not served by the larger housing finance authorized entities.

In 1996 the Foundation was working with 188 local organizations[38]; however the number of organizations working in partnership with the Foundation has dropped significantly since then. In 2004, at the moment when new covenants were established between the Foundation and local organizations, only 63 organizations signed on. At present the Foundation has partnerships with only 46 organizations.

This decline can be attributed to several factors;

- Attrition – As organizations completed projects, they became less interested in maintaining their relationship with the Foundation, as their primary task became collection of mortgage payments.
- In 1998-1999 the country experienced a crisis in the cooperative sector, which caused many cooperatives to fold.
- As a result of the Foundation's leadership ties to the government, the Foundation shifted its focus away from the local organizations – focusing rather on housing projects built by developers under Article 59.

At present the Foundation is working to strengthen its partner organizations, and while not actively seeking new organizations with whom to partner, the Foundation remains open to establishing new partnerships. In considering proposals from organizations that would like to become affiliated with the Foundation, the Foundation requires that the organization submit a formal letter of intent; a curriculum of its past accomplishments; the most recent financial statement; and a list of its current board members. In consideration of an organization's request to affiliate, the Foundation assesses the permanence of the organization; its experience in undertaking projects; its financial state; its administrative capacity; its geographical coverage including whether there exists sufficient demand within the area to sustain a long-term relationship or if there is overlap with current affiliated local organizations.

FROM PROJECTS TO PARTNERS

Initially the relationship between the Foundation and local organizations was based on project financing rather than on long-term program implementation. Under the project model a contract would be signed with each organization authorizing a line of credit for each individual project or phase of a project for a defined number of housing solutions. The relationship was limited to a specific number of houses to be financed and a specific set of beneficiaries named in the contract and for a finite period of time. In recent years the Foundation has moved to a covenant rather than a contract.

The covenant defines the relationship between the Foundation and local organizations delineating the obligations for both parties with respect to each other. The term of the covenant is for two years and is automatically extended unless one of the parties takes action to discontinue the relationship. While the covenant is of bilateral nature defining obligations for both the local organizations and the Foundation, the fact that the covenant cannot be tailored to individual organization's situations may be interpreted as a top-down imposition[39].

The basic obligations of local organizations detailed in the covenant are to:

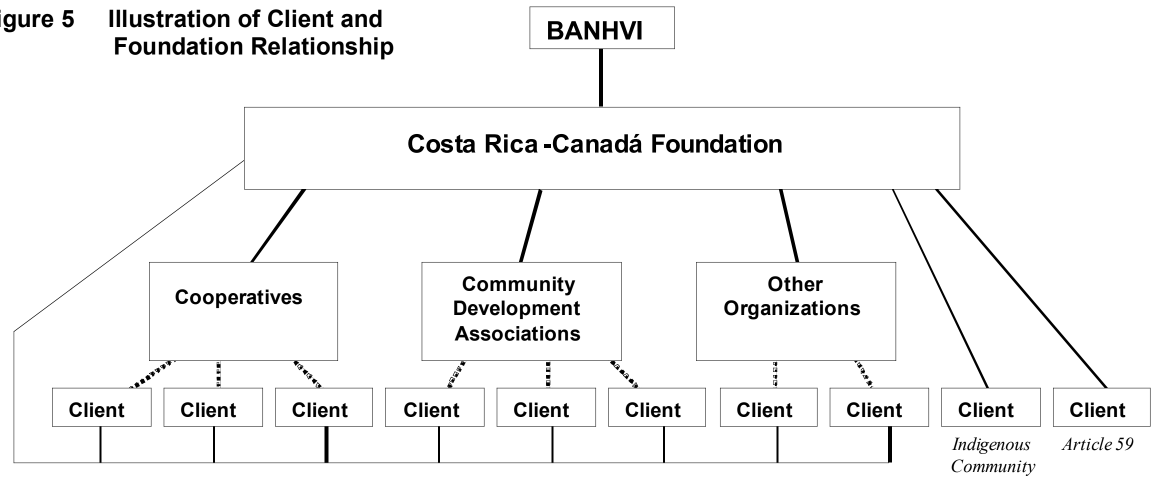
- Assist families with requirements for credit or voucher.
- Maintain accurate and separate accounting ledgers for all activities.
- Ensure that Foundation resources are used for their intended purpose.
- Maintain a separate checking account exclusively for the control of Foundation resources.
- Ensure the quality of housing construction.
- Ensure that there is proper support for all construction expenses.
- Carry out loan collections and maintain current information.
- Prepare and send reports on collections to the Foundation.

In recognition of the administrative capacity of partner organizations of differing scales, the Foundation maintains a range of requirements for internal control and financial oversight, with more stringent requirements for larger organizations than for smaller ones.

The covenants also establish the commission that organizations receive for their collections efforts, which two years ago changed from a flat rate commission to a scaled performance-based compensation (discussed in more detail under Finance and Portfolio). The knowledge that their ability to collect from clients will directly impact the organization's compensation can have the effect of restraining organizations from overextending credit beyond a client's perceived capacity to repay.[40]

While the covenant establishes the relationship between the Foundation and the local organizations, and the loan and/or voucher documents establish obligations between the client and the Foundation, there is no legal relationship between the local organization and the client, although they serve as the primary point of contact for most clients.

Figure 5 Illustration of Client and Foundation Relationship



If a local organization chooses for whatever reason to remove itself from the partnership with the Foundation, the Foundation still maintains the clients and may assign the responsibilities for collections of the portfolio to another organization. Although it has not done so in the past, the Foundation could also choose to sever ties with an organization without losing its clients.

In order to facilitate better communication between the local organizations and the Foundation, the foundation established two Zone Managers who serve as liaisons between the Foundation and local organizations. It is their task to communicate the interests of the local organizations to the Foundation as well as representing the interests of the Foundation to the local organizations.

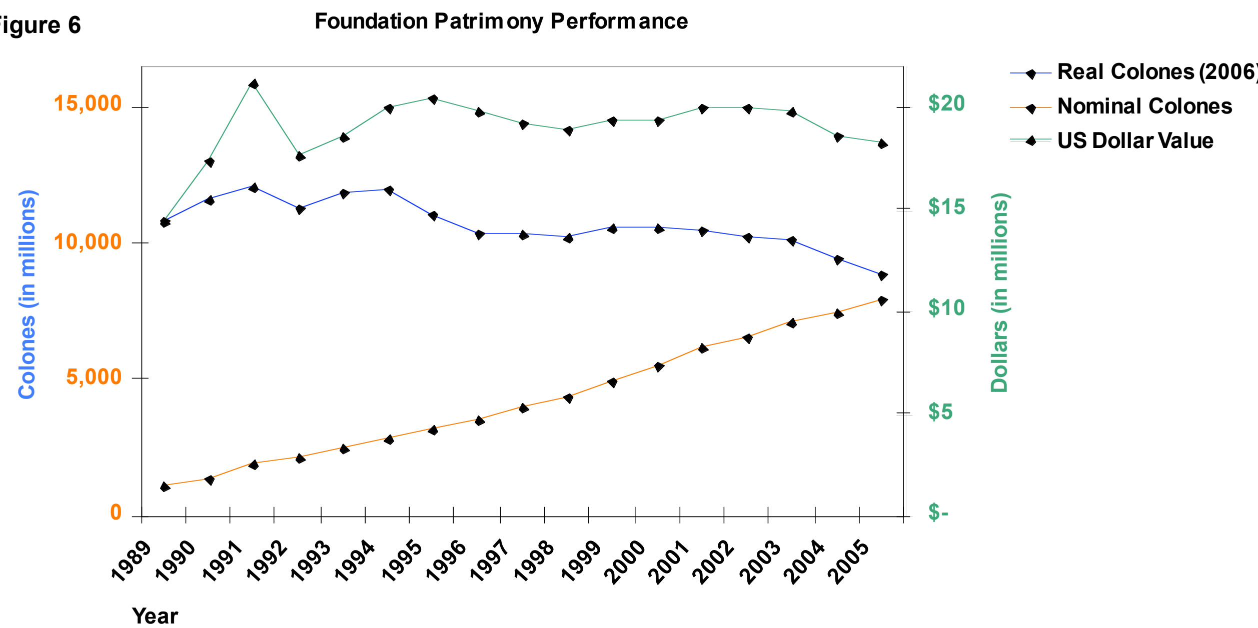
Perhaps the most significant gesture in affirming the importance of local organizations has been granting the right to permanent representation on the Foundation board as of 2005. An additional outcome of this action has been the facilitation of communication between local organizations present during assemblies that are mandated for the election of the representative. This allows local organizations an unprecedented opportunity to share information and to express themselves with one voice to the Foundation.

PORTFOLIO AND FINANCE

The Foundation's equity and endowment is entirely derived from the transfer of the Costa Rica - Canada bilateral fund. This one-time endowment has provided sufficient resources for the Foundation to operate for the last 18 years. In fact, at times the Foundation has been challenged to keep this fund circulating to ensure its permanence. Without the continuous investment of the

Foundation's equity in interest-yielding loans the Foundation risks gradually losing its endowment to the effects of inflation and operating expenses. Presently the Foundation provides short-term bridge loans to market-rate housing developers, as a means of securing a return on investment for the portion of the endowment that is not tied up in long-term loans to families.

Figure 6



Data Source: Derived from Fundación Costa Rica – Canadá, Annual Patrimony
Banco Central de Costa Rica Consumer Price Index and Exchange rates

An analysis of the Foundation's equity demonstrates a consistent increase on an annual basis in nominal currency measurement; however this growth has not been able to keep pace with inflation and has experienced a decline in value in real terms as measured in real 2006 Colones adjusted for inflation based on the Costa Rican consumer price index (see appendix I for further information on the financial performance of the Foundation). This suggests that the Foundation must reduce administrative costs, raise interest rates or actively seek grants or other funding to subsidize its activities in order to maintain itself in the long term. The recent raise in the percentage based administration fee for Article 59 activities, from one percent to five percent, will likely assist the Foundation in attaining a more sustainable level of growth.

The Foundation's strategic plan for 2003-2006 identifies fundraising from international organizations as a potential means to strengthen their equity by obtaining new funds for the principal activities of the Foundation or for complimentary projects. However this has not been a primary focus of the Foundation largely because the Foundation has not had the need for additional resources for its activities.[41]

The portfolio of the foundation includes the developer bridge loans, housing loans, family welfare loans and personal secured loans. Housing loans account for 94.5 percent of the portfolio. The housing loans include loans issued in conjunction with Family Housing Voucher and standard (unsubsidized) loans. Sixty-two percent of the value of the housing loan portfolio results from credits issued in conjunction with the Family Housing Vouchers. Families receiving only the voucher do not enter into the Foundations credit portfolio, as there is no repayment;

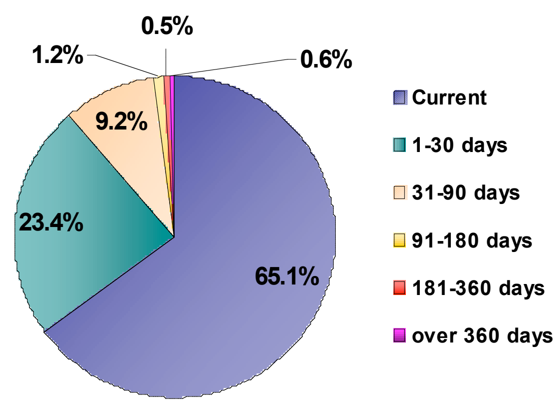
however the Foundation maintains administrative oversight of these cases for 10 years after completion during which the property is subject to certain restrictions.

As of July 31, 2006 the housing portfolio of the Foundation consisted of 6,533 loans with a value of ¢5,764 million Colones or $US11.2 million. All of these loans are secured with a first or, under specific circumstances, a second mortgage lien against the property. This requirement provides a secure executable guarantee for repayment; however, it excludes families who do not have clear title. Additionally, the property must also maintain fire and earthquake insurance, which are included in the financing cost.

Although the Foundation works in partnership with 46 organizations, the four organizations with the largest credit portfolio with the Foundation account for one quarter of the Foundation's entire portfolio.

Over the past three years the Foundation has dramatically improved the payment performance on its portfolio; 11.3 percent of the portfolio falls into the at-risk category with over 30 days past due. While this may appear high, if compared to the portfolio's past performance, it is in fact a substantial accomplishment. While only three years ago18 percent of the Foundation's portfolio was in arrears in excess of 90 days, this has dropped to only 2.2 percent of the portfolio. This achievement has been the result of a combination of efforts to improve the collections operations.

Figure 7 Distribution of Portfolio by Payment Status



Data Source: Fundación Costa Rica-Canadá

First, the Foundation has implemented new information technology to assist with the management of its portfolio. Individual organizations are now able to access updated information via the Internet, whereas in the past clients statements were printed monthly by the Foundation and subsequently distributed to each partner organization. In some instances the Foundation has provided local organizations with grants for computer equipment to enable access to the Foundation's information bank. Technological advances also allow organizations and clients to make payments directly to the Foundation making use of online banking.

Secondly, due to a variety of inaccuracies in the collections system, the information that the Foundation maintained regarding each client's account did not always match the client's records. Often clients would make deposits to the Foundation's account for their loan payments but without sufficient information to identify the client. As a result, the Foundation had accumulated quite a large sumof unidentifiable funds. The Foundation made a concerted effort to reconcile accounts meeting with each client and reaching agreement on the actual balance of each account.[42] This reconciliation gave clients greater confidence in the accuracy of the Foundation's information relative to their accounts.

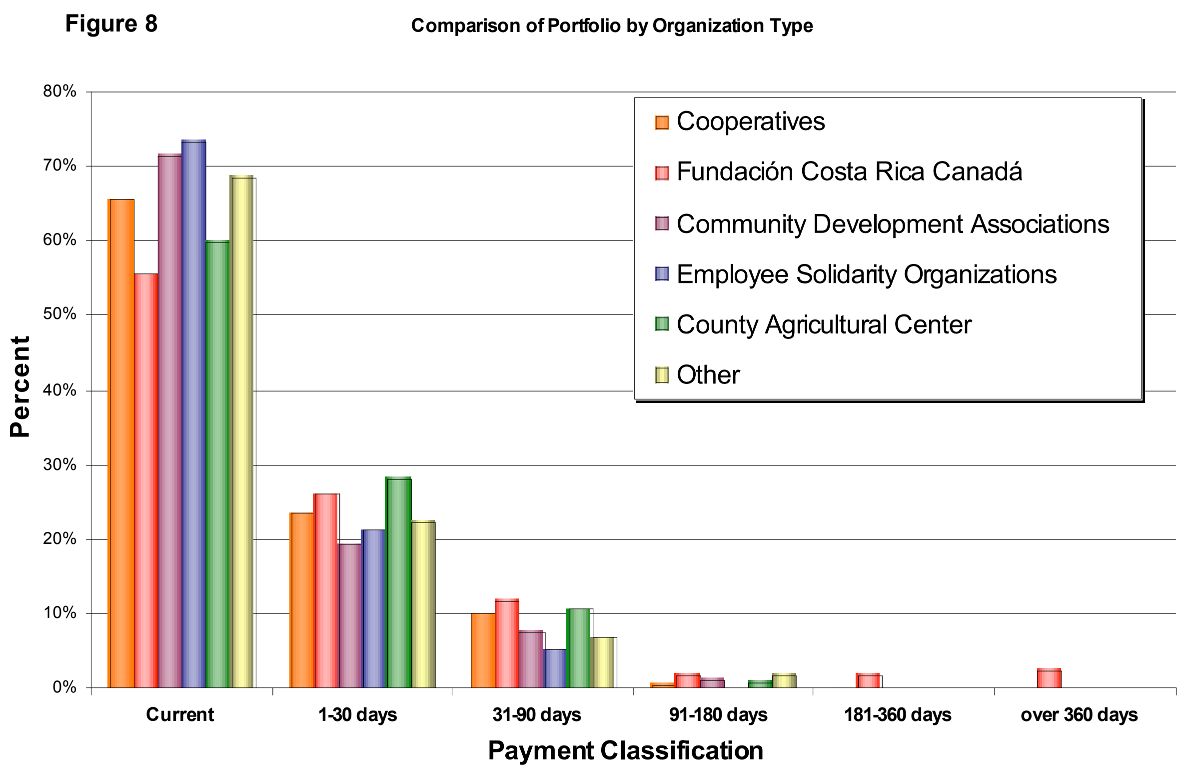
Lastly the Foundation revised their compensation of local organizations creating an incentive-based commission for collections performance. Previously local organizations received a flat 5 percent commission based on the amount collected each month. The new covenants established with each of the local organizations in 2005 altered the terms for collections compensation based on performance measures according to the following table.

	Portfolio Status			Commission
Category	Current	1-30 days overdue	Greater that 90 days overdue	
Base	-	-	-	3%
Level 1	At least 70%	At least 15%	No more than 5%	5%
Level 2	At least 80%	At least 10%	No more than 3%	9%

This new incentive-based approach has generally been welcomed by local organizations that recognize the opportunity for increased revenues as advantageous. It has changed the attitude towards collections, promoting a business-like approach.

An analysis of the performance of the portfolio by the type of organization (figure 8) reveals that the general behavior of the portfolio is not dramatically affected by the type of organization. While slight differences do exist, it is not possible to determine whether these are direct results of the nature of the organization.

Figure 8



CONCLUSION AND LESSONS LEARNED

By working in partnership with local organizations throughout Costa Rica the Foundation has been able to take advantage of existing established local organizational and administrative capacity to propagate its housing finance programs. The Foundation has become the largest single outlet for the governmental housing subsidies while maintaining an investment portfolio in social housing that fulfills the Foundation's mission to provide housing solutions while earning a return on investment of the Foundations endowment.

BALANCED GOVERNANCE - A balanced governing body where all relevant stakeholders have a voice is essential for a well-governed and functioning organization. While ties to strategic governmental entities through Board participation can be advantageous, an overrepresentation (majority of votes) from central government can create a highly unstable environment subject to political manipulation, and is not conducive to establishing an agenda based on the organization's mission. Balance in the share of power must be institutionalized in order to insulate the governing body from undue political influence. Giving a share of governing authority to local partner organizations achieves a dual function of balancing the power within the Board while validating the contribution and knowledge of these organizations.

SELECTION OF PARTNER ORGANIZATIONS - In choosing partner organizations it has been important to the Foundation to be able to assess the ability to maintain a long-term relationship, evaluating the organization's fiscal health, their administrative capacity to adequately carry out collections operations, as well as their ability to sustain long-term program operations. It is also essential to consider whether there is sufficient demand to sustain a program within the population or geography served by the organization. Organizations that are too small may be viable partners for only a short period of time.

PERFORMANCE-BASED INCENTIVES - The Foundation has been able to dramatically reduce delinquency rates by encouraging local organizations to take an entrepreneurial approach to the management of their loan portfolios. Establishing a compensation schedule based on portfolio performance has provided local organizations with motivation to improve repayment rates and to exercise caution and good judgment in granting credit. Rewarding improved performance also contributes towards the concept of a partnership creating mutual benefit for both parties involved.

BUILD CONFIDENCE IN PARTNERSHIPS – Open-ended covenants establish permanence in the relationship between the Foundation and local counterpart, rather than contracts limited either by time or by a predefined number of housing solutions to be financed. Clearly defined roles and responsibilities for both the Foundation and local organizations provide a strong basis for an ongoing working relationship. Giving collective voice to the local partner organizations through institutionalized assemblies and representation on the governing board also empower local organizations and contribute towards a more balanced relationship.

EMPOWER CLIENTS – Client control over the construction creates a stronger sense of ownership, by starting with ownership of the process. In some cases this involvement stimulates clients to participate in the construction in order to reduce costs.

Establish Adequate Quality Control Mechanisms – The technical oversight for construction established by the Foundation guarantees safe, durable, quality construction and ensures the proper use of resources. Assessment of the building site by qualified Foundation staff for safety standards as part of the approval process is an important first step in this process mitigating possible hazards of landslides, earthquakes and flooding. The requirement to have a contracted engineer for each housing solution raises the overall cost of construction but serves to insure the construction against builder defects and provides greater fiscal control over disbursements.

Financial Sustainability– While the Foundation's financial history demonstrates a consistent positive return on equity in nominal terms, nonetheless when viewed in inflation-adjusted real terms their equity has been decreasing at an average annual rate of 1.1 percent. This loss in real terms could be viewed as an additional subsidy necessary to provide the social programs. It has been noted that in voucher-only cases the administration fee paid to the Foundation by BAHNVI is insufficient to cover the costs associated with delivering the voucher, thus creating a subsidy which has been assumed by the Foundation. In this regard only the loan products, which serve higher income households, have been sustainable. The Foundation has assumed this hidden subsidy recognizing their duty to work with the very-low and extremely low income sectors.

To become financially sustainable, the Foundation will either need to obtain grant funds to cover their real losses, increase efficiency, and/or increase their fees for services which for voucher activities are established by law. A positive move in this respect is the recent increase approved by the Costa Rican government for administration costs for Article 59 vouchers from 1 percent to 5 percent. A financially sustainable operation would also allow the Foundation to significantly increase their loan portfolio by leveraging their equity, thereby enabling greater scale of impact in its housing programs

The Foundation offers an alternative model of program delivery that takes advantage of existing local capacity as manifested in local organizations of various natures in order to achieve an end that is in their mutual interest – the improvement of the quality of life for families through the provision of housing. This model respects and builds upon the past efforts of local organizations and allows for program implementation through these existing, experienced entities with an established reputation in their communities, allowing for local organizations to grow in their community impact while providing a means for a centralized Foundation to proliferate their housing finance activities across a large geographical area encompassing every province in the country.

Appendix I
FINANCIAL INFORMATION
FUNDACIÓN COSTA RICA - CANADÁ
as of December 31, 1999, 2002 and 2005
(Values are Nominal Colones without cents)

Balance Sheet

	1999	2002	2005
Total Assets	**5,562,660,000**	**7,039,780,000**	**9,267,000,000**
Fixed Assets	216,430,000	321,620,000	354,610,000
Current Assets	4,996,060,000	6,476,040,000	8,239,290,000
Other Assets	350,170,000	242,120,000	673,100,000
Total Liabilities	**598,960,000**	**494,000,000**	**1,324,690,000**
Short-term Liabilities	598,960,000	494,000,000	995,040,000
Long-term Liabilities	-	-	329,650,000
Equity	**4,963,700,000**	**6,545,780,000**	**7,942,310,000**

Income Statement

	1999	2002	2005
Total Income	**1,178,940,000**	**1,273,230,000**	**1,655,430,000**
Financial Income	1,014,500,000	1,135,980,000	1,398,610,000
Voucher Commissions	130,020,000	108,880,000	203,810,000
Other Income	34,420,000	28,370,000	53,010,000
Total Expenses	**609,130,000**	**886,228,000**	**1,200,230,000**
Operational Expenses	489,660,000	754,630,000	1,092,580,000
Finance Expenses	69,370,000	648,000	61,510,000
Loan Loss Provision	24,020,000	49,060,000	46,140,000
Other Expenses	26,080,000	81,890,000	-
Revenues	**569,810,000**	**387,002,000**	**455,200,000**

ROA (Return on Assets)	10%	5%	6%

Loan Portfolio

	1999	2002	2005
Total Loan Portfolio	**3,756,314,000**	**4,560,007,000**	**7,140,674,000**
Special Loans *	**-**	**124,364,000**	**1,258,674,000**
Client Loan Portfolio	3,756,314,000	4,435,643,000	5,882,000,000
Number of Loans Outstanding	9,297	8,672	7,363
Average Outstanding Loan Size	404,035	511,490	798,859
Short and Long-term investments	**998,450,000**	**1,630,390,000**	**856,270,000**
Return on Equity	11%	6%	6%
Percentage of loans past due**	25%	42%	19%
Portfolio at risk	8%	17%	4%
Cost of Funds	-	-	

** Short-term loans to organizations and developers*

*** Loans in arrears of 31 days or more*

Appendix II

INTERVIEWS

FUNDACIÓN COSTA RICA-CANADÁ

Board of Directors

Mario A. Rodriguez V., Presidente
Ignacio Fernandez Vargas

Staff

Juan José Umaña Vargas, Gerente General
Kathiana Aguilar Barquero, Subgerente
Ing. Mauricio Alvarado Herrera, Gerente de Operaciones
Luis Fernando Ibarra Rojas, Gerente Financiero y Desarrollo
Lic. Geovanni Solano Loaiza, Auditor
Joaquín Vargas Cordero, Gerente Zona
Bernardette Vargas Ortega, Asistente
Laura Oviedo Hernández, Jefe de Cobro
Victor Quirós Morales, Jefe Administrativo
Cesar Aguilar Arias, Asistente
Mauricio Bustos Cascante, Jefe Servicios Complementarios
Sonia Vindas Montero, Jefe de Desarrollo Humano
Franklin Morales Azofeifa, Jefe Financiero
Jorge Bolaños Venegas, Supervisor de Proyectos

COOPEPURISCAL

Ignacio Fernandez Vargas
Geovanni Saenz
Violeta Fallas

COOPEESPARZA

Jorge Arce

ASSOCIACIÓN DE DESARROLLO PIEDADES NORTE

Rafael Jimenez

Informal interviews were also conducted with various clients on site visits to Puriscal and Piedades Norte.

All interviews were conducted between August 16 and August 31, 2006

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